Marketing Fallacies And Realities

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What is marketing? Peter Drucker is quoted to have said "Marketing is so basic that it cannot be considered a separate function...it is the whole business seen from the point of view of its final result, that is, from the customer's point of view."

Theodore Levitt stated "The purpose of the product is not what the engineer or technologist explicitly says it is, but what the consumer implicitly demands that it shall be. Thus the consumer consumes not things, but expected benefits; not cosmetics, but the satisfactions of the allurements they promise; not quarter-inch drills, but quarter-inch holes; not stocks in companies, but capital gains;...not low calorie whipped cream, but self-rewarding indulgence combined with sophisticated convenience."

Charles Revson of Revlon Cosmetics put marketing as "In the factory we make cosmetics, but in the drugstore we sell hope."

Throughout these examples of marketing, emphasis was on the consumer. I guarantee that if you focus on consumer needs in your marketing, you'll most likely achieve profits through consumer satisfaction. Floriculture and landscape horticulture are seldom sold, unfortunately, to customers based on need. That in itself is a fallacy in economic and marketing reasoning. The foods arena has had abundant studies emphasizing what is healthful or nutritious, thereby creating a need; but for your industry?? In fact, the opposite might be true as the issues of pesticides and ground water contamination surface in the consumers' minds relating to floriculture and containerized landscape plants.

Marketing and economic reasoning fallacies can pop up when growers become emotionally rather than logically involved in the production and marketing of landscape and floral plants. Let's look at a few of these fallacies and the inherent realities in marketing floricultural plant materials, stemming from statements made by and of the industry.

<u>The sky's the limit with the greenhouse industry growing 10% annually.</u> The immediate fallacy is the reliance on history as a predictor of the future. That's not to say we shouldn't be proud for the growth of the industry during the last of the millennium. But what will the 2000s bring? To say the least, they will be turbulent times which will shift the emphasis to economic survival for businesses such as yours. Uncertainty over a tighter economy which impacts discretionary income spending and a bimodal population split between the movers and the hunker-downers cast shadows on the outlook for the 2000s.

An additional fallacy is the notion that tastes and preferences for ecologically- and environmentally-promoting horticulture create sales. Tastes and preferences create demand or want, but not necessarily sales, as sales are only consummated when dollars change hands from the consumer's pocket to the firm's cash register. It can be argued that since floriculture products are non-essential items for most consumers, these items may be the first to be eliminated when income falls. Thus, decreases in income or even construction starts might result in greater reductions in expenditures than equivalent increases in these variables.

<u>I heard I can get $$$ for each plant.</u> The obvious fallacy in this statement is the notion that high price is immediately equated to high profit. No serious consideration is given to production and marketing costs, and risk. Furthermore, the price the producer receives is really a derived price for most agricultural commodities. Unless a plants grower is also the retailer, the grower is a residual claimant to the retail price after transportation, marketing and risk-bearing costs are deducted.

Within the above statement is also the unlimited extrapolation of price – what one market location or situation provides, all growers will receive, and receive at all times. A market is a unique situation characterized by the customer. Furthermore, price rations supply, especially among perishable commodities (and plants do die), although the supply-demand relationship at the time of sale does affect the price level.

The hearsay price quoted in the earlier statement is treated as an expected or average localized price, when the price may actually be a spurious or isolated observation for a market situation unavailable to the grower. Not only does price variability exist between markets as reflected in price level and pricing pattern, but also in prescribed quality (including form, shape, color, variety, etc.) and packaging standards.

Price also impacts the revenue equation, as gross revenue equals price per unit multiplied by the quantity of units sold. Obviously, a favorable price per unit is important, as are the number of units sold, but it is the net revenue figure (after deducting expenses from gross revenue) that is of utmost importance to growers as that is the relative measure of success as a grower and businessman.

<u>Nobody else around here is raising it, so there must be a market for it.</u> The understood idea in this statement is that a comparative advantage always necessitates a competitive advantage, which is not a guaranteed fact. What is competition? It is the ability of an individual to exploit one's opportunities in such a way as to get the best of one's competitors while realizing the objectives of the business. In doing so, the issues of comparative advantage and competitive advantage both arise. Comparative advantage is the ability to out-hustle a competitor – more salable plants per greenhouse, more caliper per year, etc. No dollars are considered, just the physical attributes measured in larger numbers. So, if no one else is raising "it," then a comparative advantage exists, but exists only in that locale. Competitive advantage invokes economics and dollars into the analysis. Budgets and costs of production, marketing and transportation expenses, prices received, prices paid and quantities used of inputs, laborers and wage rates, harvest and post-harvest handling, marketing activities, and opportunity costs must be considered to determine if a competitive advantage really exists. Production tends to gravitate to the areas that have the competitive advantages. Having a comparative advantage does not indicate a competitive advantage.

I want to spread my risk by diversifying into floricultural enterprises. This statement implies diversification reduces risk, and that risk is inherently bad. Risk is the managerial opportunity cost of "striking it rich," although it is impossible to farm or grow plan material without incurring some level of risk – weather, pestilence, public policy, changing consumer tastes and preferences. Diversification is not a linear extrapolation of resources and inputs to generate output. Consider the investment into a greenhouse. Although a quantitative economic model might specify half a greenhouse, that input (the greenhouse) is not available in increments other than unitary. Consequently, labor and overhead for the entire facility are paid for by production, even if only a fraction of the space is used; such action raises per floral plant costs and therefore the price necessary to at least breakeven, let alone receive a profit.

Diversification does not zero out risk coefficients; in fact, diversification likely contributes additional risk to the business if a grower is diversifying by adding resources and adding an enterprise. Diversifying within a given resource base, however, will generally reduce overall risk if the new enterprise has lower risk than the foregone enterprise if one is being replaced.

"To manage a business well is to manage it future, and to manage its future is to manage information" is a quote attributed to Marion Harper, Jr. Managing information – or misinformation – is the premise behind understanding marketing fallacies and realities in the floriculture industry.